Imperial Oil Limited Annual Report 1963

Esso

Results in Brief

FINANCIAL	1963	1962
EARNINGS for the year	$ 71,088,000	$ 68,433,000
per share	*$2.25*	*$2.16*
as a percentage of revenues	*7.0*	*7.0*
as a percentage of capital employed at January 1	*8.4*	*8.2*
DIVIDENDS paid to shareholders	$ 48,994,000	$ 44,248,000
per share	*$1.55*	*$1.40*
as a percentage of earnings	*69*	*65*
SHAREHOLDERS' INVESTMENT at year end	$ 742,578,000	$712,424,000
per share	*$23.49*	*$22.54*
CAPITAL AND EXPLORATION EXPENDITURES	$ 80,246,000	$ 76,389,000
TOTAL ASSETS at year end	$1,002,273,000	$953,679,000

OPERATING	*Barrels per day*	*Barrels per day*
PRODUCT SALES	327,000	317,000
CRUDE OIL PROCESSED AT REFINERIES	319,000	305,000
CRUDE OIL AND NATURAL GAS LIQUIDS PRODUCTION		
Gross	126,000	124,000
Net	109,000	108,000
Percentage of actual to potential production	*44*	*44*
NATURAL GAS PRODUCTION	*M.C.F. per day*	*M.C.F. per day*
Gross	185,000	170,000
Net	159,000	150,000

Cover: Symbolic of the massive equipment installed at Imperial's nine refineries, the catalytic cracking unit at Imperial's Calgary refinery looms against the western sky.

Annual Report 1963

Imperial Oil Limited

Incorporated: 1880
Head Office: Toronto, Ontario

Directors

J. A. Armstrong, C. E. Carson,
J. A. Cogan, D. H. Cooper, L. D. Fraser,
J. W. Hamilton, A. C. Harrop,
T. F. Moore, R. S. Ritchie,
D. S. Simmons, V. Taylor, W. O. Twaits

Officers

President, W. O. Twaits
Vice-Presidents, J. A. Cogan,
L. D. Fraser, T. F. Moore, V. Taylor
General Secretary, G. M. Henderson
Comptroller, G. R. McLellan
Treasurer, D. W. McGibbon

General Counsel, J. F. Barrett, Q.C.

Transfer Offices

Imperial Oil Limited: *Toronto, Ontario*
Montreal Trust Company: *Halifax, Nova Scotia; Montreal, Quebec; Winnipeg, Manitoba; Regina, Saskatchewan; Calgary, Alberta; Vancouver, British Columbia*
Bankers Trust Company: *New York, N.Y.*

Annual General Meeting of Shareholders
11:00 a.m., Tuesday, April 21, 1964
Canadian Room, Royal York Hotel,
Toronto, Ontario

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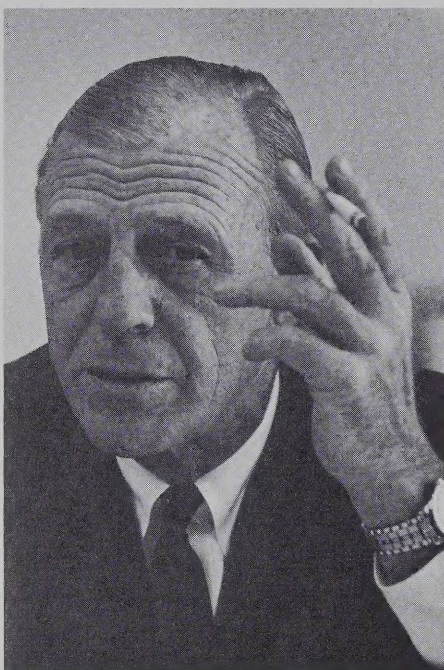
Report to the Shareholders



W. O. TWAITS, *President*

For the fiscal year ended
December 31, 1963

The year 1963 was one of continued progress for Imperial Oil; the company produced more crude oil and natural gas, and made and sold more oil products than ever before. For the first time, the company's gross revenues from all sources, and its total assets, each exceeded one billion dollars. Consolidated net earnings were up four per cent over 1962 and totalled $71,088,000 or $2.25 a share. This was accomplished in the face of a decline in manufacturing-marketing profits resulting from intense price competition in the product market and higher costs for purchased crude oil. Imperial purchased 59 per cent of its Canadian crude oil requirements from other producers in 1963.

Exploring for and developing new oil reserves, and meeting the needs of changing technology and changing consumer purchasing patterns, require a continuing high rate of investment. The company's capital and exploration expenditures were $80,246,000 during 1963. Imperial's investment policy, which is designed to equip the company to meet long term as well as immediate needs for crude oil and petroleum products, has resulted in exploration and capital expenditures of more than $1,400,000,000 over the past 15 years. This long range investment policy, combined with unceasing efforts to improve efficiencies and reduce costs, has put the company in a strong position to meet the challenges of competition now and in the future. Reflecting the company's sound financial position and its confidence in the future, dividends were increased to a total of $1.55 a share during 1963, compared with $1.40 a share in 1962.

To serve the expanding Canadian economy, the petroleum industry set new records in producing, manufacturing and sales during the past year. Oil and natural gas now provide more than two-thirds of Canada's energy needs.

Industry production of crude oil and natural gas liquids increased 52,000 barrels a day to 784,000 barrels a day. Sales of natural gas increased nine per cent to 2.3 billion cubic feet per day. Exports of liquid hydrocarbons and of natural gas increased again in 1963, and continued to contribute substantially to Canada's balance of payments. Imperial, which has been a leader in developing export markets for crude oil, supplied some 74,000 barrels a day for its export customers during 1963.

While the general level of spare refining capacity in the industry decreased again during the year, it remained high in some areas and contributed to the severity of competition. To the general public, this competition was most evident in the service station field, where gasoline prices were driven to new lows in some major markets.

Hearings and studies of particular significance to the oil industry were conducted by government bodies during the year. Included in these was an examination of the Alberta crude oil prorationing formula by the Alberta Oil and Gas Conservation Board. Nineteen briefs, submitted during these hearings by Imperial and other producing oil companies, indicated a widespread desire in the industry for change—of differing and sometimes opposing kinds—in the prorationing formula. As this report went to press, the Conservation Board was considering the recommendations it should make to the government.

In essence, the decision facing the board is the extent to which oil shall be drawn from the most economic fields. It is Imperial's contention that sound economics dictate that the prorationing formula should be changed to permit the more efficient, higher reserve fields a larger share of the market.

During the year the board also considered applications to produce oil in commercial quantities from the Athabasca oil sands. One of these proposals was made by Imperial and partners who have been conducting extensive research into recovery of oil from the sands and who applied for a permit to build a plant to produce 100,000 barrels of oil a day. This proposal, and a similar

Note: Imperial, the company, and like expressions may include Imperial Oil Limited and/or subsidiary companies.

proposal by another company, were deferred by the board. Early in 1964 a third company, which had previously been granted a permit to produce 31,500 barrels a day from the oil sands, was given approval to increase its proposed output to 45,000 barrels a day.

The problem of determining how the Alberta oil sands should fit into the pattern of Alberta's oil production is a difficult one for all concerned. The economics of oil sands development are affected by many factors including the growth of markets for Canadian crude oil, wellhead prices for conventional oil and the discovery rate of conventional oil, as well as the actual costs of bringing the oil sands into production. Imperial feels that development of the oil sands or of any other source supplemental to conventional oil should not be forced, but should be governed by sound economics.

The studies being conducted by the Royal Commission on Taxation appointed by the federal government are of particular importance to the oil industry. Taxation formulae bear directly on the health of the Canadian economy and thus on the well-being of the petroleum industry as the primary supplier of energy for that economy. Because of this, and because the oil industry is exposed to a great many taxes which affect all its operations, Imperial made a comprehensive submission which stated the company's views on fiscal policy to the commission. It pointed out that taxation should be broadly based so as not to hinder or overburden one industry or section of the economy in relation to others. The brief explained how taxes affect the ability of Canadian oil companies to compete in the exploration for and production of crude oil and the ability of oil products to compete in the energy market. It pointed out that discriminatory taxation is harmful not only to the oil industry but to the economic fabric of the nation. Considerable loss of government revenue results when this kind of taxation causes oil to lose out to an energy source that does not bear an equal tax burden or may actually be aided by government subsidy.

During 1963 a New Brunswick government committee undertook a study of the gasoline tax and aspects of service station operation in that province. Early this year a Royal Commission started an investigation of gasoline prices in British Columbia. Imperial has submitted briefs to both these government bodies, and the British Columbia investigation in particular has taken a great deal of the time of company executives. Imperial is cooperating fully with the British Columbia commission, although in the company's opinion the expense of this investigation to the public and to the industry is not warranted. It is Imperial's contention that the customer's best guarantees of value for his money are the checks and balances inherent in a competitive market. In recent years the oil products market has been particularly turbulent, but while this has worked hardships in the industry it has also worked to the definite advantage of the customer. The amount per gallon that Imperial nets for Esso gasoline sold through service stations, for example, has gone down in every area of Canada over the past ten years. This is not generally realized because of increases in federal and provincial taxes on gasoline during this period.

Expenditures by Imperial for exploration and new capital facilities totalled $80,246,000 during 1963. Of this, $27,731,000 was spent searching for new oil and gas fields. In this search, which extends from the Northwest Territories to Anticosti Island, Imperial participated in the drilling of 104 exploratory wells during 1963. Significant discoveries of oil were made at Utikuma in Northern Alberta and at Lost Horse Hill in southeastern Saskatchewan, and of gas at Clarke Lake South in British Columbia and in the Big Valley area of Alberta.

Producing capital expenditures totalled $27,656,000. These included outlays for purchases of proven acreage, development drilling, gas conservation facilities, and secondary recovery projects that increase recoverable reserves.

The high cost of developing new oil discoveries is illustrated by expenditures in the Judy Creek area where, after many years of exploration effort, the company found a major oil field in 1959. These expenditures include some $23,000,000 for the acquisition of proven leases in the area from the Alberta government: Imperial's holdings of productive leases in Judy Creek total about 34,000 acres. To date, the cost of drilling and equipping wells in the field and of installing the oil and gas gathering system amounts to $30,600,000. The gathering system, which was developed by Imperial, makes the field one of the most automated in the world. The field operation also includes a gas conservation plant and associated facilities built by Imperial and other operators, in which Imperial's investment is $6,600,000. The plant, which went into operation in 1963 and which is operated by Imperial, processes gas produced with oil in the field and supplies the Edmonton area.

Since 1959, Imperial's expenditures in the Judy Creek area total some $64,000,000. These are development expenditures; they do not include the substantial exploration costs incurred in finding the field.

Capital expenditures for petroleum product marketing were $15,375,000 in 1963. A substantial part of this amount was spent to build new stations to meet changing traffic patterns, and to modernize existing outlets. Investment costs for a new traditional-type station, including land, range from $50,000 in a relatively small community to $150,000 in a large city. The newer-type service centres, which include automotive supply and service facilities and a restaurant, represent a considerably greater investment.

Of the marketing expenditures, more than $6,000,000 was spent for new terminal warehouses, agency plants and truck transport equipment. These new facilities will effect further economies in product distribution.

Following the war, Imperial embarked on a major refinery modernization and expansion program. This included the building of new refineries at Edmonton

and Winnipeg, the complete rebuilding of refineries at Ioco (near Vancouver), Calgary and Dartmouth, and the expansion and modernization of refineries at Regina, Sarnia and Montreal East. As a result of this program, which entailed expenditures of more than $250,000,000 over a 15 year period, Imperial is in a sound position to meet the country's growing needs for petroleum products. Capital expenditures for the manufacture of petroleum products have therefore been relatively small in recent years, and have been devoted primarily to increasing efficiency and improving product quality. These expenditures totalled about $6,000,000 last year.

Investment opportunities in fields associated with the raw materials and technological developments of the oil industry are constantly being expanded. As an example, the company has been conducting research into the production of potash from reserves which it discovered in its search for oil in Saskatchewan. Results of this pilot plant work are encouraging. This year the company announced it will carry out research into a process which will use petroleum fuel in the reduction of iron ore. The process, a development of Esso Research and Engineering Co., reduces the iron in iron ores to the metallic state. The product can then be used directly in steel-making equipment. In this research the company will be employing its technological knowledge of the behavior of fluidized solids gained through development of operations such as fluid catalytic cracking. Ore from various mining areas will be tested in an experimental research plant to be built at the company's refinery in Dartmouth, N.S. Canada today is the largest exporter of iron ore in the world, and if the process proves successful it could lead to substantial plant construction in major ore production areas. Cost of the research program, including the building of the pilot plant, will be about $13,000,000 over the next three years.

Highlights of the year's operations are described in text and pictures on the following pages. Some of these operations warrant additional comment here.

Final arrangements were made during the year for storage of western Canadian natural gas in oil and gas reservoirs in southwestern Ontario. Gas will be stored during summer months for consumption during the winter. To carry out this operation, which will begin in the summer of 1964, Imperial and Consumers' Gas Co. have formed Tecumseh Gas Storage Ltd. The reservoirs in which the gas will be stored were acquired by Imperial in earlier years.

Reference was made earlier to increasing competition and its effect on earnings. The severity of this competition is exemplified by the changes that have taken place in the service station field. In addition to growing competition from within the industry, the past ten years have seen the entry into the retail gasoline market of automotive, department and other stores. In Metropolitan Toronto, for example, gasoline is now sold by 20 such stores.

This entry of new retailers in the gasoline market has been accelerated by the surplus refinery capacity that has existed in the industry in recent years, and by the rapid growth of suburbs which has resulted in the establishment of shopping plazas and discount stores to serve the highly mobile consumer. To meet these new conditions, Imperial has broadened its range of merchandise and is selling new lines of products through selected service stations in major markets; has developed ancillary services such as take-out food facilities, "do-it-yourself" dry cleaning and laundromats; has built restaurants in conjunction with service stations on main highways; and is establishing automotive supply and repair centres.

The company also moved aggressively to meet competition in the domestic heat market during 1963. In March a program was introduced in most major heating oil markets that offered Esso Heat customers complete burner service, including emergency calls, "all for the price of the oil." In addition, customers were offered a parts contract which provides for $13.95 a year free replacement when necessary of specified burner parts. In spite of the fact that the program was quickly followed by competitors, it was successful in helping the company obtain a large number of new domestic heat accounts during the year. The company feels the program will continue to attract new customers because, being the first to introduce this service, it was able to secure the best qualified service personnel to carry out the program.

Revenues from sales of chemical products increased again in 1963, and were up 14 per cent over 1962. As a result of the company's continuing investments in petrochemical facilities, which now total $47,000,000, its sales of these products have increased 250 per cent over the past five years.

The outlook is for continued growth. Contributing to this is increasing acceptance of synthetic fibres for a broad range of applications, and the wider utilization of plastics as replacements for conventional materials which has resulted in a growth rate in plastics of nearly 13 per cent per year since 1955. The company expects that these growth factors, combined with improved technology, will result in improved earnings from its domestic and export petrochemical sales in spite of competitive price pressures.

The economic outlook for 1964 appears to be one of continued buoyancy assisted by the sustained improvement in export trade, and in particular by the carry-forward of the extraordinary wheat contracts concluded last fall. We anticipate that both gross national product and petroleum demand will increase by some four per cent during the year.

The health of the economy reflects directly on the petroleum industry. Thus fiscal and monetary policy, international trade negotiations and other factors which are matters of public policy will have a strong bearing on the company's progress.

Three factors, two within the industry itself and the third in the field of government, will bear particularly on the industry's rate of progress. The first is that

earnings will continue to be affected by competitive pressures on margins. The second is the continued evolution of the now well established Canada/U.S. pattern of energy movements, so essential to full utilization of western Canadian oil and gas resources. Third, it is to be hoped that provincial and federal authorities will begin to recognize the serious effects on their own revenues, as well as on the productivity of the industry, of the disparate taxation between various competing forms of energy.

The Canadian petroleum industry has met and will continue to meet normal competitive and technological challenges. It has contributed very substantially to the Canadian economy. In the post-war period, for example, the development of crude oil and natural gas production in western Canada, and the building of associated transportation and refining capacity, have made a very large contribution to the Canadian balance-of-payments position. Future progress of the industry and its contribution to the economy can be assured simply by equitable tax and legislative treatment.

Your company's good progress during 1963 stemmed from the cooperation and support it received from its 9,693 dealers and agents, and from the talents, skills and enthusiasm which its 11,998 employees brought to their work. Most Imperial employees do not come into direct contact with customers during the course of their work, and it is particularly gratifying to note that during the past year, through participation in a "Sell Esso" program introduced early in the year, these employees substantially increased the company's sales of products.

Your directors would like also to thank the company's 42,057 shareholders for their continued support.

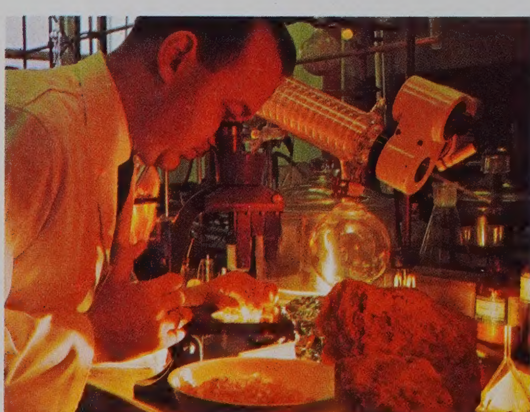
W. O. TWAITS, *President*

1963—A Pictorial Review

Exploration and Production

Imperial's production of crude oil, natural gas liquids, and natural gas increased again in 1963, and earnings from these sources contributed substantially to the company's total profits.

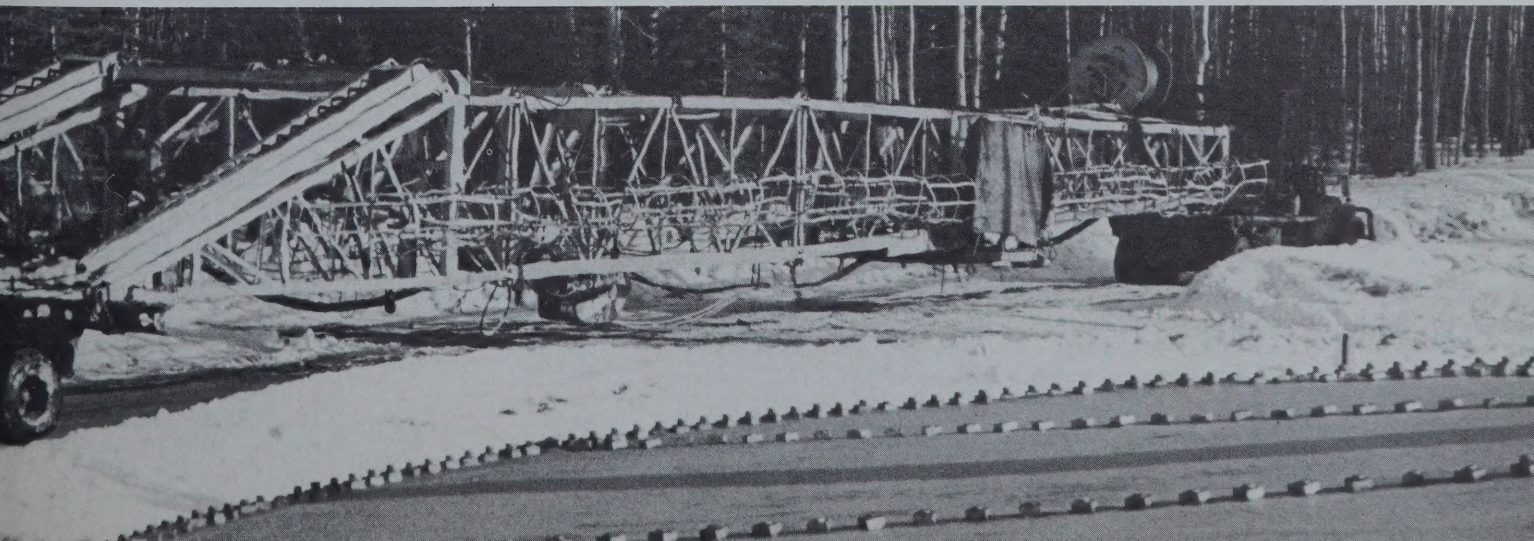
	1963	1962
Net production, crude oil and natural gas liquids barrels per day	109,000	108,000
Net production, natural gas, mcf per day	159,000	150,000
Gross land holdings (reservations, permits, options, leases) millions of acres	22.0	17.2
Exploratory wells drilled, including partnership ventures	104	105
Net development wells drilled	137	171
Net wells capable of production		
crude oil	2,764	2,685
natural gas	196	183



Imperial continued research into the production of potash in southwestern Saskatchewan. Results of this research, which was carried out in company laboratories and in a pilot plant, are encouraging.

Built at a cost of $9,950,000 by Imperial and other oil companies, this plant conserves gas produced with oil at Judy Creek in Alberta. Operated by Imperial, the plant supplies natural gas to the Edmonton area. Imperial's share of the plant cost was $6,600,000, bringing the company's total development investment to date at Judy Creek to $64,000,000.

A drill rig is moved into the Judy Creek field. Imperial drilled 137 net wells in western Canada and in Ontario to develop new fields and to extend fields previously discovered. Expenditures for development drilling were more than $11,500,000 in 1963.



In its search for oil and gas, which extends from the Northwest Territories to Anticosti Island, Imperial participated in the drilling of 104 exploratory wells during 1963. Significant discoveries of oil were made in northern Alberta and southeastern Saskatchewan, and of gas in northeastern British Columbia and in the Big Valley area of Alberta.

With Consumers' Gas Co., Imperial has formed Tecumseh Gas Storage Ltd. which will store western Canadian natural gas in southwestern Ontario during the summer months for winter consumption. Storage will start in the summer of 1964. Here one of the compressors that will pump the gas underground is moved on site.

Transportation and Supply

Total volumes of crude oil and products moved by company facilities, and by facilities in which the company has an investment interest, reached new highs during 1963. In all its transportation and distribution operations, Imperial continued to improve efficiencies and reduce costs.

		Barrels per day, Crude Oil and Natural Gas Liquids 1963
Imperial requirements:		
for Imperial refineries served by Canadian crude oil		191,000
for export customers		74,000
Total		265,000
Imperial wells could produce efficiently	250,000	
Actual net production, Imperial wells		109,000
Imperial purchased from other Canadian oil producers		156,000

As a result of the Alberta prorationing formula, Imperial had to purchase large quantities of crude oil from other Canadian producers during 1963, most of which it could have produced from its own wells.

Members of the new Edmonton regional office of the transportation and supply department study Alberta oil field locations. The new office was established to provide better coordination of crude and product supply and of all aspects of company distribution in western Canada.

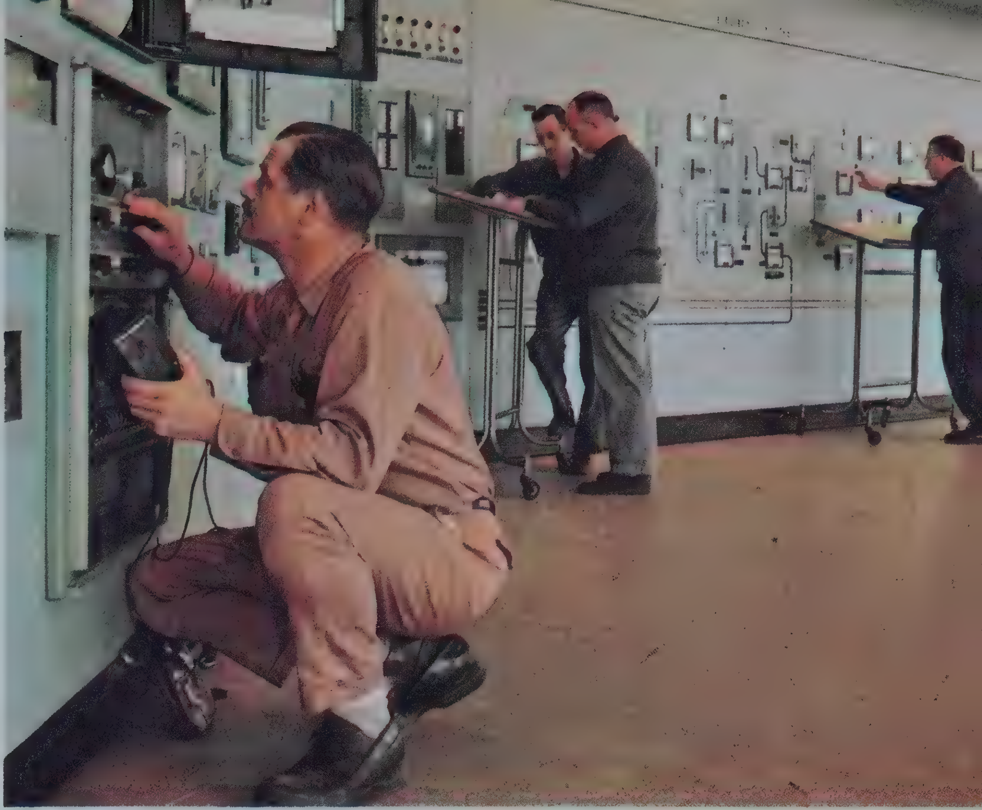
Volumes of crude and product carried by the company's 17 lake, coastal and ocean vessels, and by tankers chartered by the company, totalled 88,000,000 barrels during the past year. This was an increase of about five per cent over volumes carried in 1962.

Construction of a spur line which connects Imperial's Sarnia Products Pipe Line with Toronto International Airport was completed during the fall of 1963. Jet and turbo-prop fuel is now delivered by pipe line to the fueling hydrant system which services the aircraft.

Two barges, propelled by twin inboard-outboard engines, went into bunkering service in Montreal harbor. Built at Port Weller, Ont., the barges carry special blending equipment to meet the marine fuel requirements of ships of all nations.

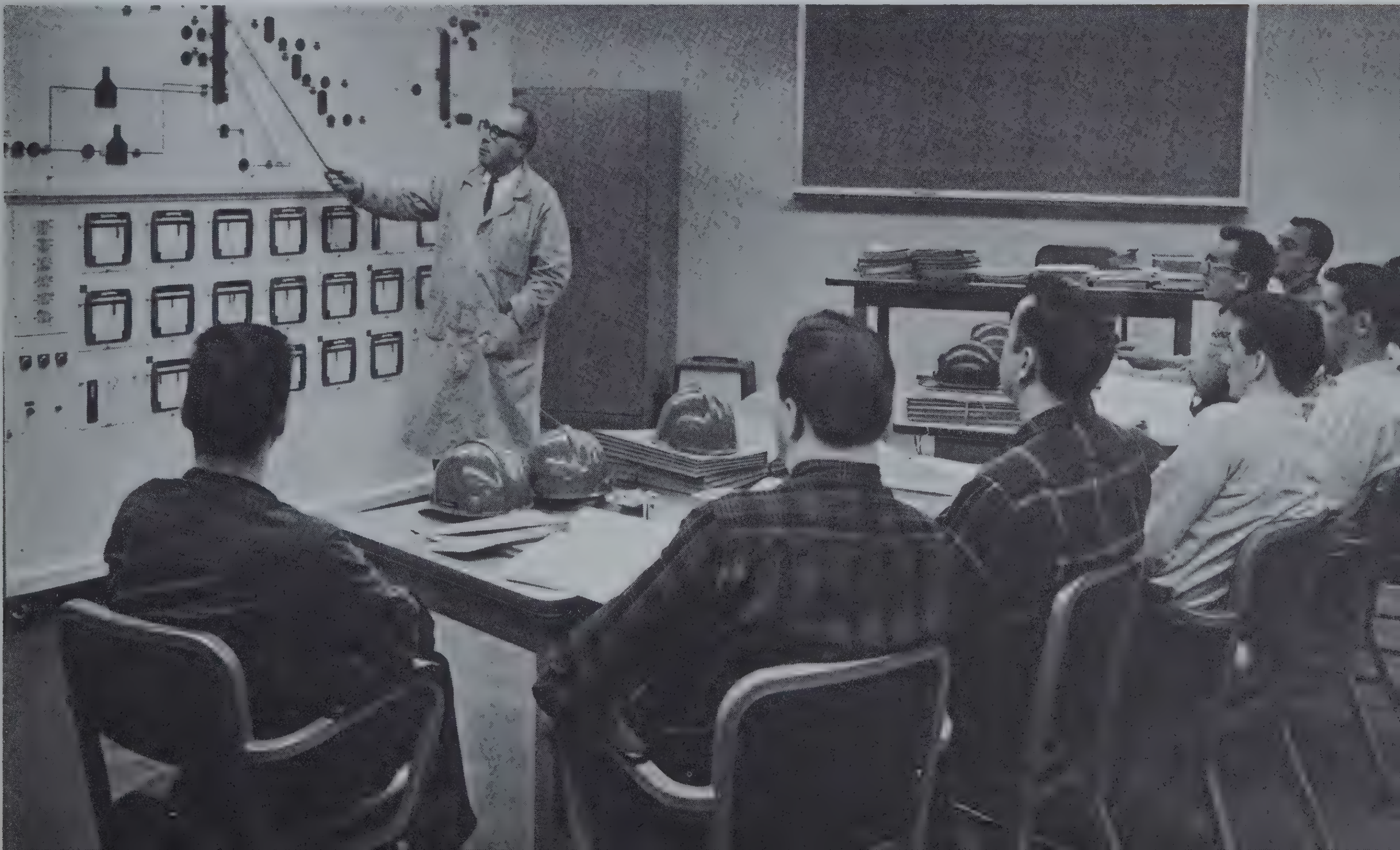
Manufacturing

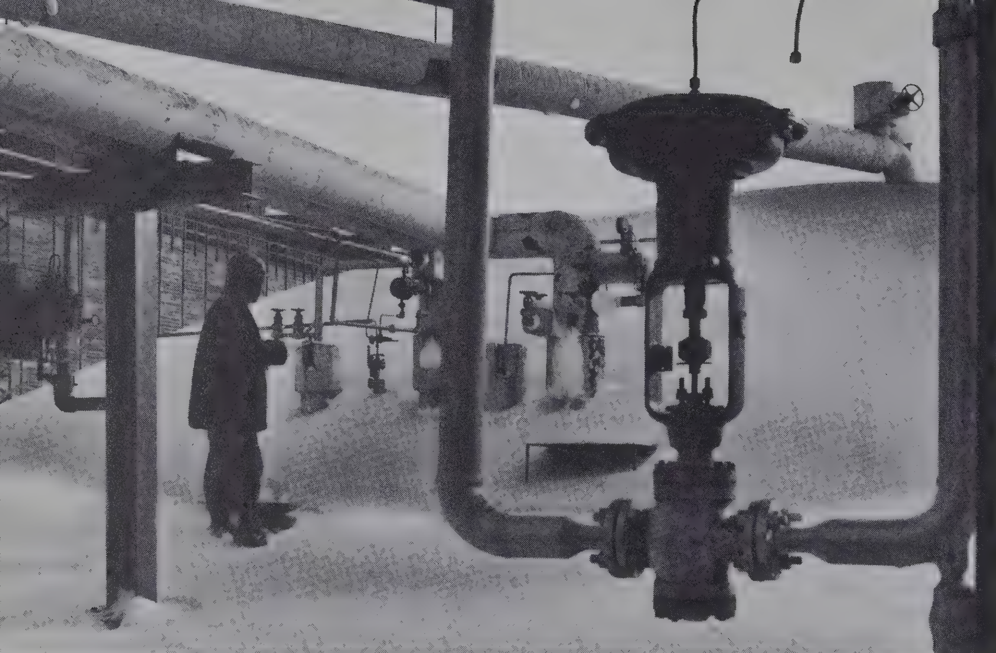
During 1963 the company's nine refineries processed a record 319,000 barrels a day of oil products, an increase of five per cent over 1962. Sixty per cent of the crude run was from Canadian wells, which served all the company's refineries except those at Montreal East, Que., and Dartmouth, N.S.



An instrument mechanic adjusts automatic quality analysis equipment at Sarnia refinery. During 1963 the company continued to develop applications for equipment that checks the quality of products as they are being processed, providing improved control of processes and of product quality.

Refinery operators discuss new process techniques. Training and retraining to keep personnel abreast of technological developments is an essential part of Imperial's operations.





Construction of a refrigerated storage pit which holds 1,750,000 gallons of liquefied propane gas was completed at Imperial's Montreal East refinery. First of its kind in Canada, the cavern cost $550,000 and stores propane at 49 degrees below zero.

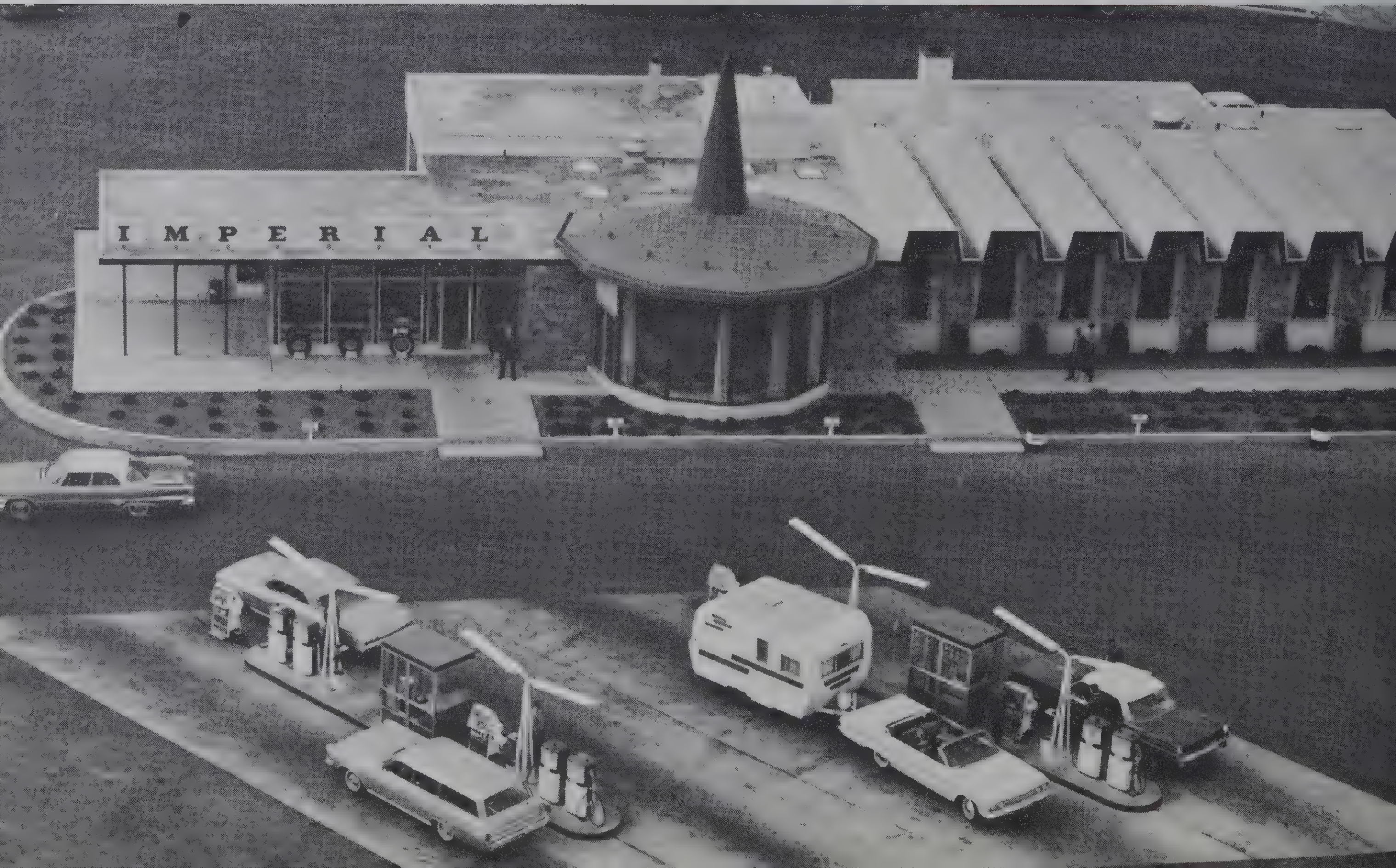
A company representative chats with post-graduate students. Imperial places particular emphasis on its university recruiting program.

During the past 15 years, Imperial spent some $250,000,000 to build new refineries and to rebuild, modernize and expand existing refineries. This picture shows a part of Winnipeg refinery, which went on stream in 1951.

Petroleum Product Sales

Volumes of petroleum products sold by the company totalled 327,000 barrels per day, an increase of three per cent over 1962. During the year the company moved aggressively to meet growing competition and to adapt marketing operations to changing conditions.

In March of 1963 Imperial introduced free burner service to Esso Heat customers in most major heating oil markets. The program helped the company secure a large number of new domestic heat accounts during the year.



The use of "pup trailer" trucks continued to expand during 1963. With their increased capacity, they provide more efficient distribution of petroleum products.

Located near Newcastle, Ont., and costing $300,000, this is one of three new stations built by the company on controlled access Highway 401. During 1963 the company continued to make substantial investments in building new stations where needed and in modernizing older stations.

Built at a cost of $250,000, this new marketing plant at Sarnia went into operation during the past year. Total capital expenditures for bulk plants, warehouses and other facilities which will effect further economies in product distribution were $6,000,000 in 1963.

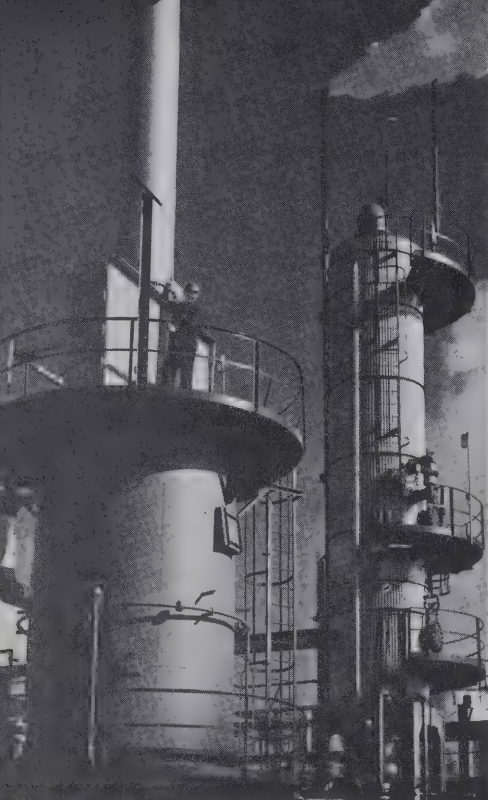
An Esso Touring Service centre was opened in the company's new office building in Place Ville Marie in Montreal.

Diversification of product lines to meet new marketing conditions continued during 1963. This picture shows a new Imperial automotive supply centre at Pont Viau in Montreal.

Petrochemical Sales

Revenues from sales of chemical products in domestic and export markets rose again during 1963, and increased 14 per cent over the previous year. Earnings showed a gratifying increase although, because of competitive pressures on prices, they did not keep pace with growth in volume.

A section of Imperial's petrochemical manufacturing complex at Sarnia is shown here. Since 1957 the company has invested $47,000,000 in petrochemical facilities.



This addition to Imperial's petrochemical facilities at Sarnia went on stream in 1963. The new plant, which produces feed stocks for the manufacture of carbon black, is the first of its kind in Canada.

Truck units transport Imperial ethylene to markets in Canada and the United States. The special tanks on these units keep the liquid ethylene at 150 degrees below zero.

Some of the many uses of plastics are shown here. Use of plastics in Canada has grown at a rate of nearly 13 per cent per year since 1955. Ethylene and benzene, primary products for the manufacture of plastics, are two of the 28 chemical products made by Imperial at Sarnia.

Financial Review

EARNINGS

The company's net earnings for 1963 were $71,088,000, an increase of $2,655,000 or four per cent over 1962. As can be seen in chart 1, earnings continue to show the improvement which began in 1959 following the 1958 recession.

CAPITAL EMPLOYED

At the end of 1963 capital employed by the company was $877,000,000. This amount compares with $353,000,000 at December 31, 1950. In recent years the rate of return on capital employed has been around eight per cent, compared with about ten per cent in earlier years (chart 1).

DIVIDENDS PAID TO SHAREHOLDERS

In 1963 the company paid dividends of $1.55 per share, made up of three quarterly payments of 30 cents and a year end payment of 65 cents, which included an increased regular payment of 35 cents plus an extra dividend of 30 cents. Total dividends per share were $1.40 in 1962. Dividends in 1963 totalled $48,994,000 compared with $44,248,000 in 1962. Chart 3 compares the trend of earnings and dividends per share.

REVENUES AND EXPENSES

The results of the past two years are compared in the following table:

	1963	1962	Percent Change
Revenues			
Sales and other operating	$1,001,150,000	$964,926,000	4
Investment and other . .	14,084,000	13,021,000	8
	1,015,234,000	977,947,000	4
Expenses, other than depreciation and income taxes	857,052,000	818,060,000	5
Provision for:			
Depreciation	47,064,000	48,234,000	(2)
Income taxes	40,030,000	43,220,000	(7)
Earnings for the year . . .	$ 71,088,000	$ 68,433,000	4

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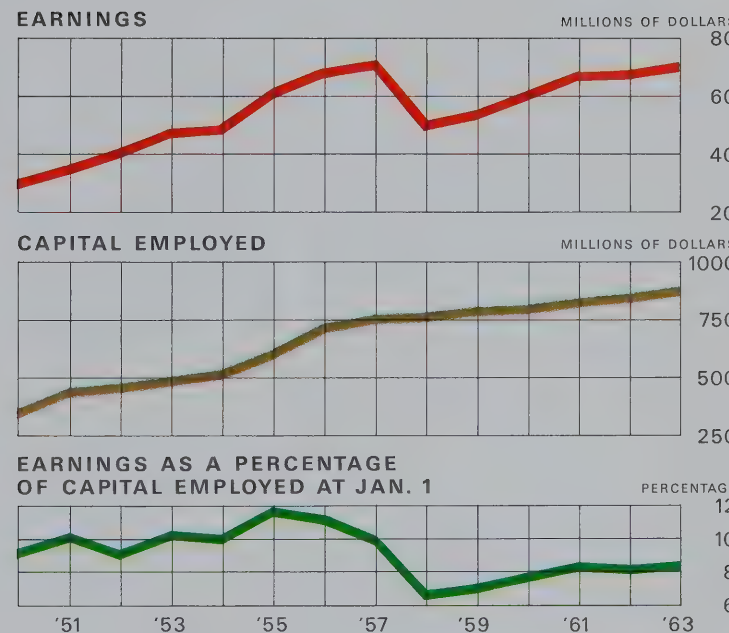

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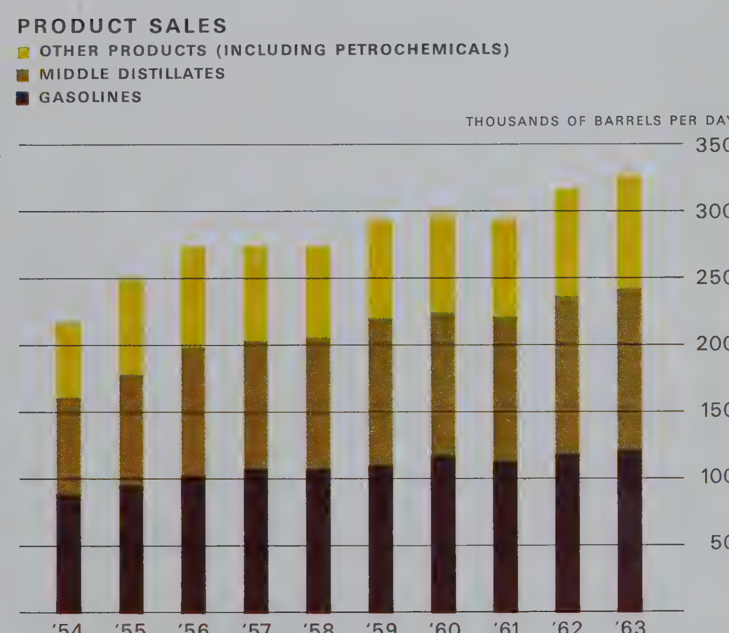


Sales and Other Operating Revenues increased four per cent and exceeded one billion dollars for the first time in the history of the company. Product sales volumes are shown in chart 2; new highs were established in all main categories of products with the total exceeding 327,000 barrels per day. Prices for petroleum products were lower on average than in 1962. Pro-

ceeds from sales of Canadian crude oil were three per cent higher. Sales revenue from chemical products increased 14 per cent over 1962.

Investment and Other Income totalled $14,084,000 in 1963, an increase of $1,063,000 or eight per cent. These revenues mainly represent dividends on shares held in other companies and interest income from other investments; both increased in 1963.

Expenses, including crude oil and other material costs, increased five per cent, reflecting mainly higher average costs for crude oil purchased and the higher level of operations in 1963. Imperial's requirements for crude oil and source of supply are summarized in charts 4 and 5. This latter chart highlights the fact that, in 1963, Imperial produced only 41 per cent of its Canadian crude requirements. The balance amounting to 156,000 barrels per day was purchased from other Canadian producers. Employees' wages and benefits totalled $95,061,000 for the year, an increase of $1,864,000 from 1962; the average compensation per employee continued the upward trend of recent years (chart 6).

Depreciation and Amortization Provisions charged against 1963 earnings totalled $47,064,000. Provision for depreciation of capital costs of plant and equipment is based on the estimated service lives of the assets, calculated on the straight-line percentage method. Provision for amortization of producing lease and well costs is based on the unit-of production method.

Taxes associated with company operations are shown in the following table and in chart 7.

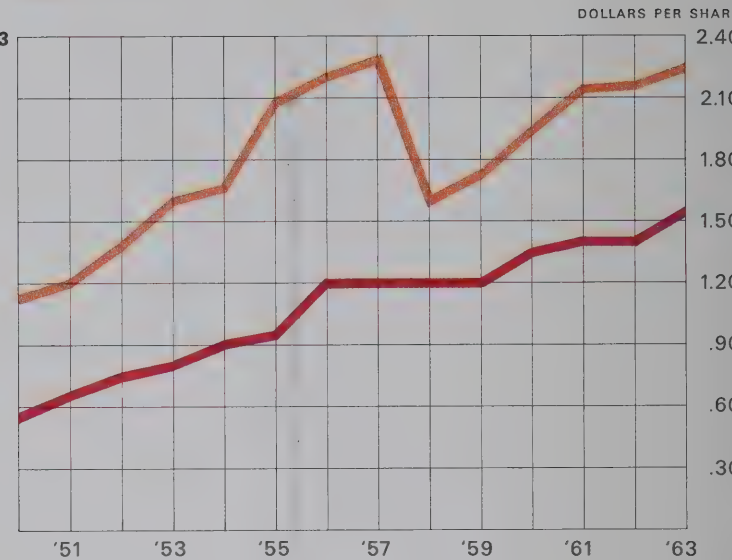
	1963	1962
Property and capital taxes	$ 12,277,000	$ 11,891,000
Federal sales tax	27,086,000	27,493,000
Income taxes	40,030,000	43,220,000
Total charged against earnings	79,393,000	82,604,000
Road taxes, etc. collected on behalf of governments	148,093,000	142,190,000
Total	$227,486,000	$224,794,000

EARNINGS AND DIVIDENDS PER SHARE

EARNINGS

DIVIDENDS

3



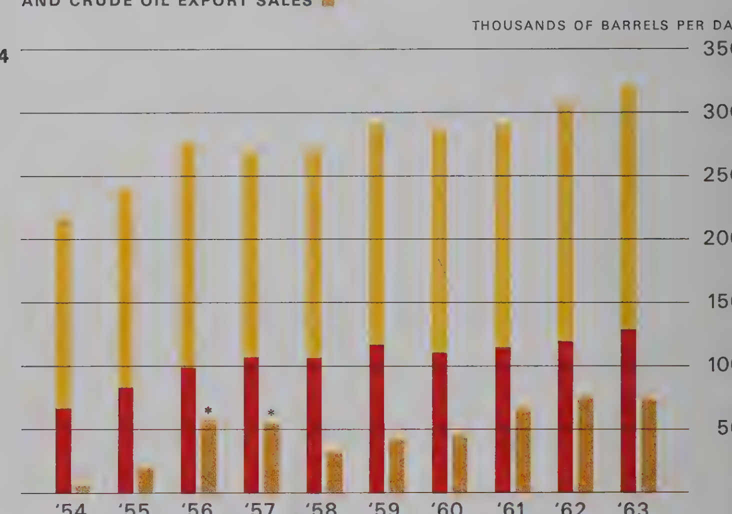
CRUDE OIL PROCESSED AT REFINERIES

CANADIAN CRUDE

FOREIGN CRUDE

AND CRUDE OIL EXPORT SALES

4



*REFLECT SUEZ CRISIS

Road and other taxes levied directly against consumers by governments and collected for them by the company increased $5,903,000 to $148,093,000. Road taxes now range from 12 to 19 cents per gallon for gasoline, and from 14 to 27 cents per gallon for diesel fuel.

ASSETS AND LIABILITIES

Total Assets of the company exceeded one billion dollars for the first time in its history (chart 8). At year end they amounted to $1,002,273,000, an increase of $48,594,000 over 1962.

Working Capital, consisting of current assets less current liabilities, in-

creased $15,329,000 to $263,769,000 made up of the following:

	1963	1962
Cash, including time deposits . . .	$ 28,511,000	$ 24,750,000
Marketable securities	54,044,000	33,285,000
Accounts receivable	160,922,000	146,653,000
Prepaid taxes, insurance and rentals	1,895,000	2,346,000
Inventories:		
Crude oil, products and other merchandise	134,995,000	134,992,000
Materials and supplies	8,495,000	8,760,000
Current assets	388,862,000	350,786,000
Less: Current liabilities	125,093,000	102,346,000
Working Capital	$263,769,000	$248,440,000
Ratio, current assets to current liabilities	3.1 to 1	3.4 to 1

At year end, cash and marketable securities totalled $82,555,000, an increase over last year of $24,520,000. It is the company's practice to invest those funds not immediately required in its operations in government bonds and short term commercial notes.

Current accounts receivable were $160,922,000, an increase of $14,269,000 over 1962. The increase reflects the higher volume of business done, with a greater proportion on a credit basis. Provisions have been made for accounts considered doubtful of collection.

Inventories of crude oil, products and other merchandise were essentially unchanged from a year ago and totalled $134,995,000 by the FIFO (first-in first-out of inventory) method of costing. The materials and supplies inventory was $8,495,000, a reduction of $265,000 from year end 1962.

Current liabilities at $125,093,000 increased $22,747,000 mainly due to higher operating levels in the closing months of 1963 and the timing of certain large payments.

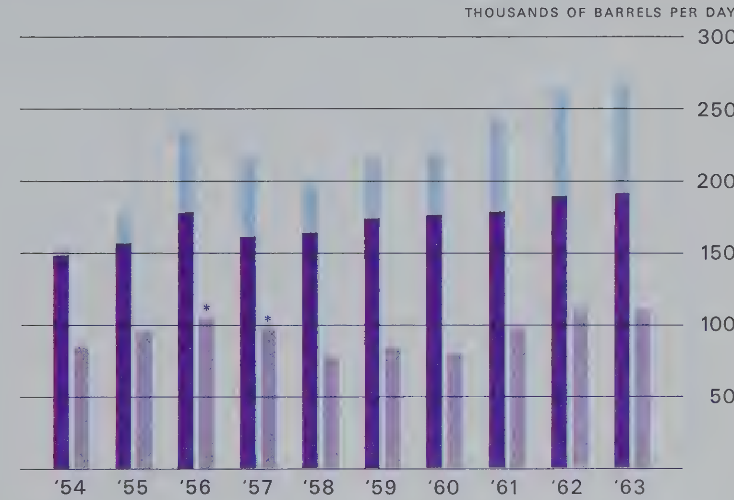
Long Term Accounts Receivable totalling $36,002,000 include loans to dealers and the financing of furnace and burner sales undertaken in the normal course of marketing operations.

Property, Plant and Equipment at original cost exceeded one billion dollars at the end of 1963. The balance remaining after deducting accumulated depreciation and amortization provisions amounted to $545,090,000. The following table provides a functional breakdown of the company's investment in property, plant and equipment, including 1963 additions.

	Gross Investment	Net Investment	1963 Additions
Producing	$ 321,347,000	$184,714,000	$27,656,000
Manufacturing, including chemical products	360,748,000	150,894,000	6,957,000
Marketing	272,241,000	165,014,000	15,375,000
Transportation	44,140,000	25,632,000	838,000
Other	24,820,000	18,836,000	1,689,000
Total	$1,023,296,000	$545,090,000	$52,515,000

IMPERIAL'S REQUIREMENTS FOR CANADIAN CRUDE AND NATURAL GAS LIQUIDS
FOR EXPORT
FOR OWN REFINERIES
AND IMPERIAL'S NET PRODUCTION

5



*REFLECT SUEZ CRISIS

TOTAL WAGES AND BENEFITS

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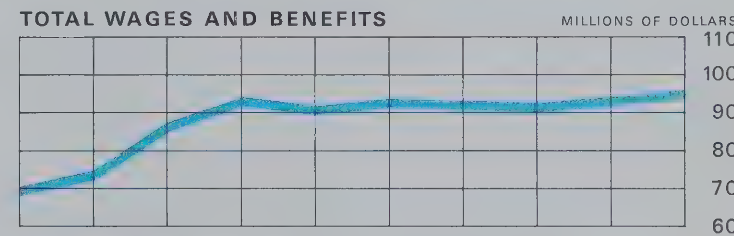
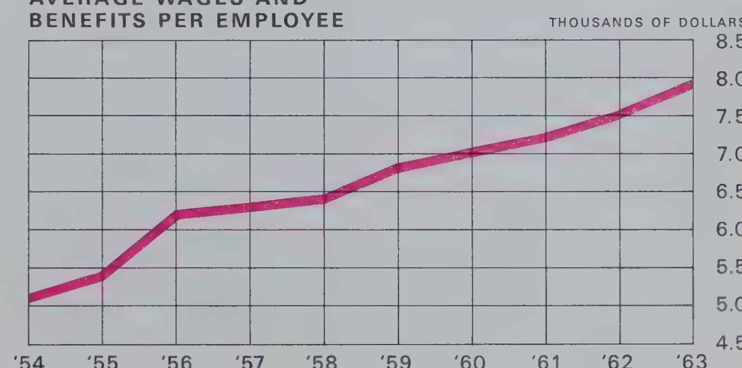


AVERAGE WAGES AND BENEFITS PER EMPLOYEE



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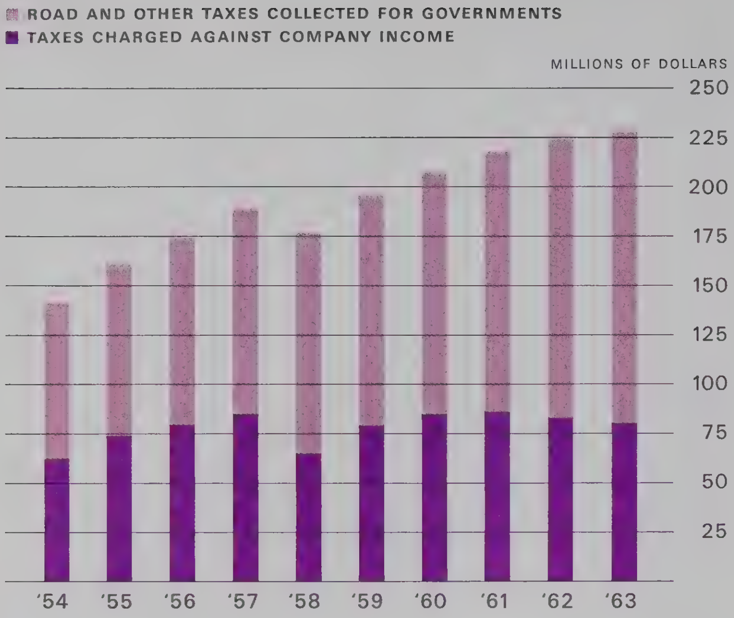
TAXES



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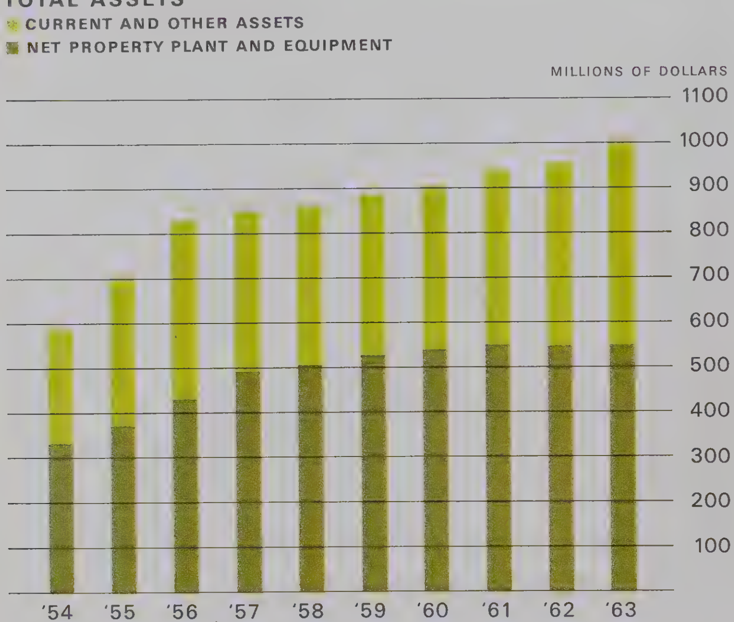
TOTAL ASSETS



Capital and exploration expenditures totalled $80,246,000 in 1963, an increase of $3,857,000 over the previous year (chart 9). Of the total expenditures $27,731,000 represents expenditures on acquisition and retention of exploration acreage, geological and geophysical investigations and surveys, dry holes and similar exploration costs; it is the policy of the company to treat such annual costs as charges against current earnings. Expenditures on purchases of proven acreage and drilling of productive wells are treated as property additions and are included in the capital additions of $52,515,000.

Long-Term Debt at the end of 1963, consisting of Sinking Fund and Serial Debentures, totalled $69,400,000 (maturing later than one year). In 1963 the company reduced its long-term debt by $3,600,000. Details of long-term debt outstanding appear in the Notes to the Financial Statements.

Employees' Annuities

The company's two main plans jointly provide life annuities to employees on retirement. One plan is an insured group annuity contract with current purchase costs shared by the company and the employees. The other is administered by a Board of Trustees with the company bearing the total costs; the liability is reviewed periodically by independent professional actuaries. The company makes regular payments to the Trustees in respect of both current and past years' service—in 1963 in the amount of $5,696,500. At December 31, 1963 the Trustees held investments of $96,673,000 at cost; in addition a liability of $10,097,000 for employees' annuities appears in the company's accounts.

At year end 2,343 retired employees were drawing life annuities from these company plans.

Deferred Income Taxes

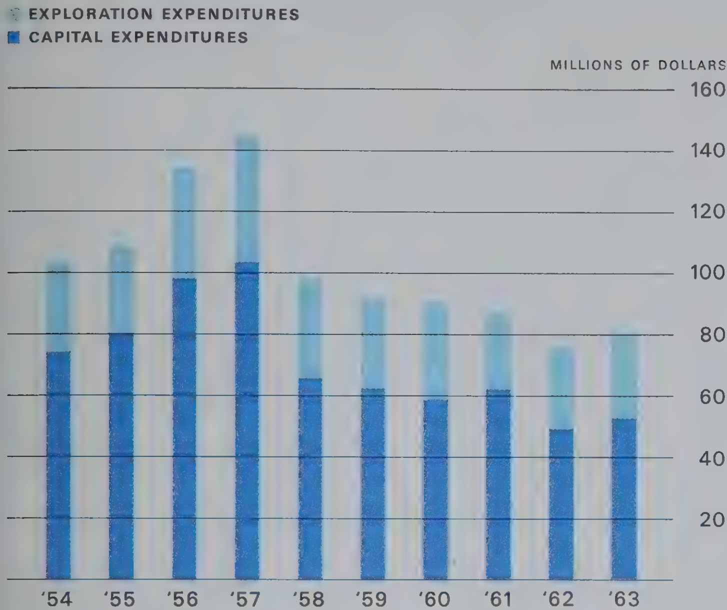
It is the company's current policy to pay income taxes based on claiming the maximum capital cost allowance permitted under the federal Income Tax Act. In previous years the income tax benefit, related to the difference between normal or straight-line depreciation and capital cost allowance, was placed in a deferred income tax account. At the end of 1962 this account totalled $52,431,000. In 1963 the maximum capital cost allowance to be claimed for tax purposes is lower than the charges against earnings. Accordingly the related income tax cost amounting to $325,000 was withdrawn from the "Deferred Income Taxes" account accumulated in prior years, leaving a balance of $52,106,000 at the end of 1963. The funds represented by this deferred income tax are being used in the company's business.

SHAREHOLDERS' INVESTMENT

The shareholders' investment consisting of capital stock, capital surplus and earnings retained increased $30,154,000 to a total of $742,578,000 at December

9

CAPITAL AND EXPLORATION EXPENDITURES



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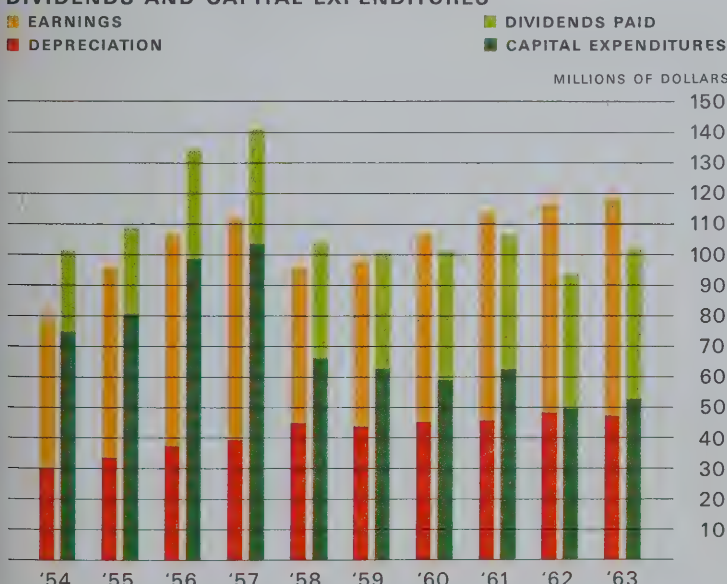
NET CASH FLOW FROM OPERATIONS COMPARED WITH DIVIDENDS AND CAPITAL EXPENDITURES



31, 1963, equal to $23.49 per share. The company at the year end had 42,057 registered shareholders, 35,741 in Canada.

Capital stock totalling 3,865 shares was issued during the year for $154,000 to employees who exercised options under the company's Incentive Stock Option Plan. These issues brought the total outstanding capital stock at December 31, 1963 to 31,610,863 shares for a total consideration of $236,195,000.

Capital surplus retained and used in the business was unchanged at $67,223,000.

Earnings retained and used in the business increased $29,999,000 in the year. Of this amount, $22,094,000 represents the earnings for the year less dividends paid. In addition, a non-recurring gain on disposal of the company's interest in natural gas storage properties and facilities amounting to $7,905,000 was added directly to earnings retained and used in the business. Earnings retained totalled $439,160,000 at December 31, 1963.

CASH FLOW

The following table shows the source and use of funds available to the company in 1963 with comparable 1962 amounts.

	1963	1962
INFLOW OF FUNDS		
Total revenues	$1,015,234,000	$977,947,000
Less: Expenses other than depreciation	857,052,000	818,060,000
Income taxes	40,030,000	43,220,000
Net cash flow from operations	118,152,000	116,667,000
Other sources of funds:		
Capital stock issues	154,000	202,000
Sales of capital assets	12,583,000	4,869,000
Total	$ 130,889,000	$121,738,000
OUTFLOW OF FUNDS		
Capital expenditures for property, plant and equipment	$ 52,515,000	$ 49,077,000
Dividends paid to shareholders	48,994,000	44,248,000
Reduction in long-term debt	3,600,000	3,500,000
Withdrawal of deferred income taxes	325,000	435,000
Accrued vacation expense—net		1,057,000
Sundry investments and deposits	10,126,000	4,267,000
Total	$ 115,560,000	$102,584,000
ADDITION TO WORKING CAPITAL	$ 15,329,000	$ 19,154,000

Chart 10 shows the major elements in the flow of funds each year for the past ten years. Net cash flow from operations includes net earnings plus depreciation and is compared with requirements for capital expenditures and dividends.

Subsidiary Companies

Imperial carries on its many activities through a number of corporate organizations, including wholly-owned subsidiaries. Among them are: W. H. Adam Ltée., Atlas Supply Company of Canada Ltd., Bourque Brothers Ltd., Champlain Oil Products, Ltd., Home Oil Distributors Ltd., Hi-Way Petroleum Ltd., Imperial Oil Enterprises Ltd., The Imperial Pipe Line Company Ltd., Mongeau & Robert Cie Ltée., Winnipeg Pipe Line Company Ltd.

CONSOLIDATED BALANCE SHEET

ASSETS	DECEMBER 31 1963	1962
CURRENT ASSETS		
Cash, including time deposits	$ 28,511,250	$ 24,750,105
Short-term commercial notes	22,933,408	9,105,362
Government securities, at the lower of cost or market	31,110,419	24,179,951
Accounts receivable	160,922,014	146,652,600
Prepaid taxes, insurance and rentals	1,895,183	2,346,088
Inventories, on basis of cost which was less than market		
Crude oil, products and merchandise	134,994,557	134,991,344
Materials and supplies	8,495,024	8,760,054
	388,861,855	350,785,504
LONG-TERM ACCOUNTS RECEIVABLE	36,002,445	34,224,617
INVESTMENT IN OTHER COMPANIES		
Bonds and shares, at cost—with quoted market value 1963—$145,680,630 1962—$142,130,290	16,012,150	16,012,150
—without quoted market value	5,660,815	2,697,192
FUNDS ON DEPOSIT WITH GOVERNMENTS AND OTHERS	7,700,879	2,356,925
PROPERTY, PLANT AND EQUIPMENT, AT COST	1,023,296,113	987,003,812
Less—accumulated depreciation and amortization	478,206,519	442,726,900
	545,089,594	544,276,912
DEFERRED CHARGES	2,945,503	3,325,500
	$1,002,273,241	$953,678,800

Approved on behalf of the Board:

The Notes to the Financial Statements on page 27 are an integral part of this statement.

LIABILITIES	DECEMBER 31 1963	1962
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 101,825,937	$ 80,087,163
Income and other taxes payable	21,766,706	20,758,704
Long-term debt due within one year	1,500,000	1,500,000
	125,092,643	102,345,867
LONG-TERM DEBT	69,400,000	73,000,000
OTHER LIABILITIES		
Employees' annuities	10,097,034	10,477,935
Contingent obligation	3,000,000	3,000,000
DEFERRED INCOME TAXES	52,105,785	52,431,330
TOTAL LIABILITIES	$ 259,695,462	$241,255,132

SHAREHOLDERS' INVESTMENT		
CAPITAL STOCK		
Authorized—40,000,000 shares of no par value		
Issued 1963—31,610,863 shares 1962—31,606,998 shares	$ 236,195,112	$236,040,512
CAPITAL SURPLUS RETAINED AND USED IN THE BUSINESS	67,222,821	67,222,821
EARNINGS RETAINED AND USED IN THE BUSINESS, per page 26	439,159,846	409,160,335
TOTAL SHAREHOLDERS' INVESTMENT	$ 742,577,779	$712,423,668
	$1,002,273,241	$953,678,800

AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders of IMPERIAL OIL LIMITED:

We have examined the Consolidated Balance Sheet of Imperial Oil Limited and its subsidiary companies as at December 31, 1963 and the Consolidated Statements of Earnings and Earnings Retained and Used in the Business for the year ended on that date and have obtained all the information and explanations we have required. Our examination was made in conformity with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the above Consolidated Balance Sheet and related Consolidated Statements of Earnings and Earnings Retained and Used in the Business are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at December 31, 1963 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants

TORONTO, March 5, 1964.

CONSOLIDATED STATEMENT OF EARNINGS

	YEAR ENDED DECEMBER 31 1963	1962
REVENUES		
Sales and other operating revenues	$1,001,150,194	$964,925,795
Investment and other income	14,083,684	13,020,785
	1,015,233,878	977,946,580
EXPENSES		
Crude oil, products and merchandise purchases	555,835,877	528,300,189
Operating, administrative and exploration expenses	259,349,539	247,769,026
Depreciation and amortization	47,063,977	48,233,773
Income taxes	40,029,786	43,219,915
Taxes, other than income taxes	39,363,193	39,384,284
Interest and discount on long-term debt	2,503,360	2,606,836
	944,145,732	909,514,023
EARNINGS for the year	$ 71,088,146	$ 68,432,557
Per share	$2.25	$2.16

CONSOLIDATED STATEMENT OF EARNINGS RETAINED AND USED IN THE BUSINESS

	1963	1962
Balance at January 1	$409,160,335	$376,070,047
Add: Earnings for the year		
1963, $2.25 per share 1962, $2.16 per share	71,088,146	68,432,557
Gain on disposal of natural gas storage properties and facilities	7,905,362	
Transfer of reserves for fire, marine and other insurance		9,962,436
	488,153,843	454,465,040
Deduct: Dividends paid		
1963, $1.55 per share 1962, $1.40 per share	48,993,997	44,247,591
Vacation expense accrued for prior years' service less related income tax credits ($975,018)		1,057,114
Balance at December 31	$439,159,846	$409,160,335

The Notes to the Financial Statements on page 27 are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

CONTINGENCIES AND COMMITMENTS

To ensure the transportation of Canadian crude oil to its refineries and other markets, the company is a party to agreements under which it is obligated to protect certain principal and interest payments required to be made by various crude oil pipe line companies. The outstanding long-term indebtedness of those companies at December 31, 1963 for which the company is contingently obligated amounts to $30,659,756 payable in Canadian funds and $36,816,598 payable in United States funds. The pipe line companies are meeting their obligations as they fall due and present indications are that they will continue to do so.

Guarantees, chiefly principal and interest on borrowings of others, amounted to $5,096,920 at December 31, 1963.

Tanker charter hire and other rentals payable by the companies under long-term agreements approximate $3,200,000 annually.

While the companies are involved in litigation incident to the nature of their business, it is impossible to ascertain what, if any, payments will have to be made in respect of such litigation. However, any amounts which the companies may be called upon to pay and any assets, the title to which may be in question as a result of current litigation, will not be materially important in relation to the total assets of the companies.

INCOME TAXES

It is the policy of the companies to make charges against income for depreciation and amortization of investment in plant and equipment based on the estimated service life of the assets by either the straight-line or unit of production method but maximum capital cost allowances are claimed for income tax purposes. The maximum allowances deductible in 1963 are less than the provision for depreciation and amortization and, as a result, income taxes payable in respect of 1963 are estimated at $40,355,331, whereas $40,029,786 was charged to income. The difference of $325,545 has reduced the balance of "Deferred Income Taxes" accumulated in prior years when capital cost allowances deductible exceeded depreciation and amortization recorded in the accounts.

Imperial carries on operations in all phases of the complex petroleum and petrochemical industry and the related income tax interpretations, legislation and regulations are continually changing. As a result there are usually some tax matters in question, sometimes for large amounts. The companies have made what they believe are adequate provisions for income taxes payable.

LONG-TERM DEBT

	DECEMBER 31 1963	DECEMBER 31 1962
Imperial Oil Limited		
3% Sinking Fund Debentures, 1949 Issue, maturing December 15, 1969	$27,900,000	$30,000,000
Sinking Fund Requirements: $400,000 in 1965 and $2,500,000 in each of the years 1966 to 1968 inclusive		
3⅝% Serial Debentures, 1955 Issue, maturing $1,500,000 February 1, 1964 and 1965	3,000,000	4,500,000
3⅝% Sinking Fund Debentures, 1955 Issue, maturing February 1, 1975	40,000,000	40,000,000
Sinking Fund Requirements: $2,000,000—in each of the years 1966 to 1970 inclusive; $2,500,000—in each of the years 1971 to 1974 inclusive		
	$70,900,000	$74,500,000
Amount due within one year	1,500,000	1,500,000
	$69,400,000	$73,000,000

CAPITAL STOCK

The Incentive Stock Option Plan (1959) provides for the granting of options to employees to purchase not more than 450,000 shares at not less than 95 per cent of the market price on the date of option. In 1963 the company issued 3,865 shares for $154,600 under the terms of this Plan, and options for 156,485 shares were outstanding at December 31, 1963.

SALARIES OF EXECUTIVE OFFICERS AND COUNSEL FEES

The total amount deducted in the Consolidated Statement of Earnings in respect of salaries and other remuneration paid to counsel, solicitors and executive officers, including all salaried directors, was $902,173 for 1963.

TEN-YEAR SUMMARY

		1963	1962
FINANCIAL			
Revenues from operations and investments		$1,015,234,000	977,947,000
Less: Expenses excluding depreciation and amortization		$ 857,052,000	818,060,000
Income taxes		$ 40,030,000	43,220,000
Net flow of funds from operations		$ 118,152,000	116,667,000
Per share		$ 3.74	3.69
Less: Depreciation and amortization		$ 47,064,000	48,234,000
Earnings for the year		$ 71,088,000	68,433,000
Per share		$ 2.25	2.16
Earnings as a percentage of revenues		7.0	7.0
Dividends paid		$ 48,994,000	44,248,000
Per share		$ 1.55	1.40
As a percentage of earnings		69	65
Current assets		$ 388,862,000	350,786,000
Less: Current liabilities		$ 125,093,000	102,346,000
Working capital		$ 263,769,000	248,440,000
Ratio of current assets to current liabilities		3.1	3.4
Property, plant and equipment less accumulated depreciation and amortization		$ 545,090,000	544,277,000
Long term accounts receivable, investments and other assets		$ 68,322,000	58,616,000
Capital employed		$ 877,181,000	851,333,000
Earnings as a percentage of capital employed at January 1		8.4	8.2
Less: Long-term debt		$ 69,400,000	73,000,000
Other deferred liabilities and deferred income taxes		$ 65,203,000	65,909,000
Balance—being shareholders' investment at book value		$ 742,578,000	712,424,000
Per share		$ 23.49	22.54
Earnings as a percentage of shareholders' investment at January 1		10.0	10.1
Number of shares issued and outstanding		31,611,000	31,607,000
Number of shareholders		42,057	43,195
Capital expenditures		$ 52,515,000	49,077,000
Exploration expenditures		$ 27,731,000	27,312,000
OPERATING			
Product sales	barrels per day	327,000	317,000
Crude oil processed at refineries	barrels per day	319,000	305,000
Crude oil and natural gas liquids production—gross	barrels per day	126,000	124,000
—net after royalties and oil payments	barrels per day	109,000	108,000
Natural gas production—gross	M.C.F. per day	185,000	170,000
—net after royalties	M.C.F. per day	159,000	150,000
Number of employees at year-end		11,998	12,257

	1961	1960	1959	1958	1957	1956	1955	1954
	907,806,000	873,615,000	866,798,000	838,775,000	884,569,000	837,373,000	700,275,000	614,550,000
	747,653,000	721,010,000	727,323,000	711,942,000	720,579,000	681,008,000	560,135,000	498,313,000
	46,653,000	46,081,000	41,237,000	31,293,000	52,366,000	49,781,000	44,321,000	36,900,000
	113,500,000	106,524,000	98,238,000	95,540,000	111,624,000	106,584,000	95,819,000	79,337,000
	3.59	*3.39*	*3.12*	*3.04*	*3.55*	*3.39*	*3.21*	*2.66*
	45,668,000	45,322,000	43,713,000	44,920,000	39,543,000	37,485,000	33,674,000	29,754,000
	67,832,000	61,202,000	54,525,000	50,620,000	72,081,000	69,099,000	62,145,000	49,583,000
	2.14	*1.94*	*1.73*	*1.61*	*2.29*	*2.20*	*2.08*	*1.66*
	7.5	*7.0*	*6.3*	*6.0*	*8.1*	*8.3*	*8.9*	*8.1*
	44,151,000	42,474,000	37,752,000	37,736,000	37,728,000	35,890,000	28,366,000	26,863,000
	1.40	*1.35*	*1.20*	*1.20*	*1.20*	*1.20*	*.95*	*.90*
	65	*69*	*69*	*75*	*52*	*52*	*46*	*54*
	335,848,000	318,007,000	319,802,000	318,416,000	322,675,000	365,674,000	299,309,000	225,460,000
	106,562,000	98,328,000	97,557,000	89,217,000	90,790,000	111,183,000	91,697,000	67,682,000
	229,286,000	219,679,000	222,245,000	229,199,000	231,885,000	254,491,000	207,612,000	157,778,000
	3.2	*3.2*	*3.3*	*3.6*	*3.6*	*3.3*	*3.3*	*3.3*
	547,553,000	535,499,000	523,407,000	504,556,000	488,991,000	429,525,000	372,520,000	331,924,000
	55,550,000	49,291,000	40,863,000	38,660,000	37,240,000	34,156,000	29,409,000	31,387,000
	832,389,000	804,469,000	786,515,000	772,415,000	758,116,000	718,172,000	609,541,000	521,089,000
	8.4	*7.8*	*7.1*	*6.7*	*10.0*	*11.3*	*11.9*	*10.1*
	76,500,000	80,000,000	83,000,000	88,000,000	90,776,000	94,170,000	96,628,000	48,986,000
	76,758,000	75,750,000	73,593,000	71,635,000	67,738,000	59,198,000	49,048,000	42,976,000
	679,131,000	648,719,000	629,922,000	612,780,000	599,602,000	564,804,000	463,865,000	429,127,000
	21.49	*20.62*	*20.02*	*19.48*	*19.07*	*17.97*	*15.53*	*14.37*
	10.5	*9.7*	*8.9*	*8.4*	*12.8*	*14.9*	*14.5*	*12.5*
	31,602,000	31,464,000	31,462,000	31,451,000	31,443,000	31,430,000	29,866,000	29,851,000
	43,562	45,949	45,332	44,668	44,544	43,823	43,614	44,734
	62,103,000	58,747,000	62,194,000	65,614,000	103,063,000	97,951,000	80,074,000	74,236,000
	24,638,000	30,768,000	29,693,000	32,770,000	41,261,000	36,154,000	28,647,000	29,748,000
	295,000	298,000	293,000	276,000	276,000	275,000	250,000	218,000
	291,000	285,000	289,000	269,000	267,000	275,000	239,000	214,000
	111,000	90,000	96,000	87,000	112,000	121,000	110,000	98,000
	97,000	79,000	84,000	77,000	97,000	105,000	95,000	85,000
	131,000	120,000	108,000	100,000	97,000	83,000	68,000	59,000
	117,000	108,000	98,000	91,000	88,000	75,000	61,000	54,000
	12,578	13,007	13,080	13,599	14,657	14,242	13,696	13,370

Esso

LITHOGRAPHED IN CANADA BY SAMPSON-MATTHEWS LIMITED